

Accounting and Financial
Management Division

145882

February 18, 1992

Mr. Sean O'Keefe
Comptroller
Department of Defense

Dear Mr. O'Keefe:

This letter contains our comments concerning the Department of Defense's January 1, 1992, Defense Business Operations Fund Implementation Plan Report. While the plan provides a good overview of what Defense hopes to accomplish through the establishment of the Fund, it is not sufficiently detailed to ensure that the Fund achieves its objectives.

BACKGROUND

In our April 30, 1991, testimony (GAO/T-AFMD-91-5) before the Subcommittee on Readiness, House Committee on Armed Services, we supported the concept underlying Defense's initiative to establish the Fund, but we expressed reservations about Defense's ability to successfully implement its plans for the Fund in fiscal year 1992. We pointed out that prior to full scale operation of the Fund, Defense needs to complete the following actions: (1) develop comprehensive and detailed policies and procedures to govern operations, (2) develop accurate and reliable cost accounting systems to capture and report the full cost of goods and services provided, and (3) prepare financial statements which can be audited and provide useful information for both management and congressional oversight.

In considering Defense's fiscal year 1992 budget, the Congress also expressed concerns about Defense's establishment and operation of the Fund. Due to these concerns, the National Defense Authorization Act for Fiscal Years 1992 and 1993 directed that no new activities be added

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to the Fund in fiscal year 1993 so that the Congress could evaluate the Fund's performance before any further expansion. The Conference Report accompanying the act also directed Defense to provide overall policy, implementation plans, and management performance factors on the Fund to the congressional Defense committees and to GAO by January 1, 1992.

REVIEW OF DEFENSE'S
IMPLEMENTATION PLAN

It is reasonable to expect that the creation of a \$77 billion operation would be supported by a comprehensive, detailed plan. While the January 1, 1992, report (1) provides an overview of what Defense hopes to achieve through the Fund and (2) defines the relationship between the Fund and its customers, it is not fully satisfactory. The report states that many of the actions Defense has underway are still incomplete and that many significant issues, such as the pricing of goods and services and the transfer of funds between the Fund and its customers, are unresolved.

Our most important concern at this juncture is that the plan is not structured and detailed enough to ensure that the Fund will achieve the goals for which it was established. Because operating the Fund is a significant and complex undertaking, a well thought-out, logical, and structured approach is needed to make this endeavor successful. At a minimum, major segments of the implementation plan should do the following:

- define the objectives and scope of the Fund's operations, and the specific results to be achieved;
- describe clearly the policies and procedures needed to operate the Fund;
- identify the specific steps for evaluating the underlying systems, internal controls, and data requirements supporting the Fund's operations as a basis for determining needed revisions--with special emphasis on data accuracy and the need to establish systems and processes that ensure that all levels of Defense have access to reliable information;
- specify educational requirements for users and training requirements for personnel who will operate and maintain the supporting systems;

- describe the approach for implementing the preceding four segments throughout Defense; and
- identify the criteria and approach for determining the Fund's success.

Each of these segments should be further detailed into specific tasks which identify milestones, resource needs, and specific individuals responsible for completing the tasks.

Beyond managing the day-to-day activities of the project, the implementation plan would be useful in other ways. It would help to establish boundaries for the project and could provide a basis for monitoring progress and holding individuals accountable. Additionally, it could be used to reassess and realign milestones as required. While the current implementation plan contains a few of these segments, it needs to be developed more fully so that it incorporates all the segments mentioned above.

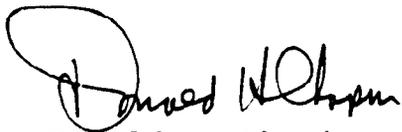
We have discussed our concerns with members of your staff, and they have acknowledged that the implementation plan should provide more detail on what needs to be done and how the plan will be accomplished. We will be working with your staff to monitor the plan's development, and we understand that a revised plan is targeted for completion by March 1, 1992.

We continue to support the overall objective and concept underlying the Defense Business Operations Fund. The Fund could make an important contribution to improving Defense's financial management. For this reason, Defense needs to minimize any risk that would cause the Fund to fall short of its objectives.

We are sending copies of this letter to the Chairmen, Subcommittees on Defense, House and Senate Committees on Appropriations; the Chairman, Subcommittee on Readiness, House Committee on Armed Services; the Chairman, Subcommittee on Readiness, Sustainability and Support, Senate Committee on Armed Services; and the Deputy Secretary of Defense. If you or your staff have any questions or wish

to discuss the above-mentioned points in greater detail,
please contact David Nellemann, Director, Defense Systems
Audits, at (202) 275-7095.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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